

State of California



# *Electricity* **OVERSIGHT BOARD**

## **PRESS RELEASE**

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## **California Requests Price Cap Reduction to Stem Electricity Price Run-Up**

The California Electricity Oversight Board (Board) acted swiftly today on four requests of Governor Gray Davis to take actions to help assure that prices Californians pay for electric energy are reasonable until electricity markets are workably competitive. Governor Davis' requests come as a result of a combination of certain reliability events and unconscionable customer rates. These conditions demonstrated that a competitive wholesale market for electricity supply has not yet developed sufficiently to provide California with reliable electric service at reasonable rates.

The Board, which oversees California's power markets and the two institutions that run them, passed four resolutions on unanimous votes affecting the California Power Exchange (CalPX) and the California Independent System Operator (CAISO). Together, the four resolutions deal with reducing CAISO price caps on the electric energy to the lowest reasonable level, extending CAISO's authority to impose price caps beyond its expiration later this year, authorizing CalPX price caps, and directing EOB Staff to act to help achieve those goals.

Resolution No. 00-08-01 urges the CAISO Governing Board to act immediately to reduce caps on electricity bids to the lowest reasonable level that is consistent with the charging of just and reasonable rates to California consumers.

Resolution No. 00-08-02 urges the CAISO Governing Board to request the Federal Energy Regulatory Commission (FERC) to extend price-cap authority beyond its current expiration date of November 15, 2000.

Resolution No. 00-08-03 urges the CalPX Governing Board to request that the FERC authorize the CalPX to impose bid caps at the lowest reasonable level.

Resolution No. 00-08-04 directs EOB Staff to take necessary and appropriate actions to lodge requests that the FERC find that the wholesale electricity markets in California are not workably competitive, and to take necessary actions

in light of this finding to ensure that the rates paid by California consumers are just and reasonable.

Board Chairman Michael Kahn said, "These actions show the clear leadership of Governor Davis and of this Board in addressing the problems of the lack of a workably competitive market for wholesale electric power in California and taking appropriate actions."

Senator Debra Bowen, Chair of the California Senate Energy, Utilities and Communications Committee and a member of the Board, stated that increasing the supply of generating capacity in California will not, by itself, eliminate the causes of the current high prices in the State. She said, "Supply isn't the only problem. Customers don't get any price signals to warn them of the high costs of electricity. Customers in Los Angeles and San Francisco have price caps, so they don't feel the effects of the market conditions at all. In the San Diego area (where most customers receive service through the San Diego Gas & Electric Company), customers are only getting price signals when they open their monthly utility bill." Finally, Senator Bowen noted that it might be necessary to change features of the market design in California. She stated, "When prices are high on a Sunday afternoon, when demand isn't as high as it is on a weekday, and there's no shortage of generating capacity, it's clear the market isn't working like it's supposed to."

Assemblyman Roderick Wright, Chair of the California Assembly Utilities and Commerce Committee and a member of the Board, also spoke at the meeting. He pointed out that investing in power plants is a risky business, and the financial results of such investments depend on the price of electrons in the market. He also stated that the State of California should be wary of pushing too hard to reduce prices lest other elements of electric service be damaged. "In any business transaction, there are three things on the table: price, quality, and service," he said. "You can't get all three for the consumer all the time. If you get a low price, you must be prepared to give up some level of quality or service." He stated that service might be more important than price in some cases. "If the power goes out in the Bay Area - or anywhere else - we won't be meeting here to talk about price," he stated.

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